



Market Commentary
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English Version

Insigneo Weekly Dispatch

Riding the Waves 2025: PM Takeaways

Get guidance on investments, and the major structural factors behind your clients' portfolios.

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Riding the Waves 2025: PM Takeaways

Historically, nearly half of all corrections have led to bear markets, with the mean decline below -10% levels being approximately -25%.

There is enough supporting evidence for a lateral or downward market trend view for the remainder of the year to merit concern.

In the context of portfolio management, two effective methods of controlling risk in fixed income are focusing on quality and laddering fixed income portfolios in alignment with client's future cash flow needs.

"How to position portfolios in general considering the potential outcomes ahead?", the answer still lies in a balanced strategy.

After a 23% rally in the S&P 500 in 2024 and several years of US technology stocks outperforming the

market, investment portfolios have become increasingly concentrated in this sector. The concept of 'US exceptionalism' which is the belief that the U.S. economy and stock market are fundamentally distinct from those of other nations, has driven the outperformance of U.S. equities in recent decades. As a result, U.S. stocks, particularly a handful of large-cap technology companies, have become the standard for performance comparison and are often perceived as a relatively 'safe' long-term investment.

Although technological disruptions can generate enormous real value that spills over into other industries and justify high valuations, bearish investors quietly questioned the sustainability and scale of their impressive growth throughout 2024. Then, as 2025 began, the investment landscape started to shift.

Investors have since confronted a new backdrop of heightened volatility, underpinned by the announcement of tariffs and cracks in investor sentiment over the valuations of the mega cap stocks. Recently, markets have displayed a more pessimistic assess-

ment of tariffs and risks that could translate into higher inflation, a higher cost of living and an increased probability of a recession. Until that point, there was optimism toward rising trade barriers, viewing them as negotiable or potentially offset by other policies. But as the rapid and sharp implementation of tariffs neared, and as the likely downside effects of trade policies became clearer, U.S. stocks took a sharp hit.

Or perhaps the worst is yet to come? This is *the* key question today.

Since 1930, the S&P 500 has experienced 26 corrections (peak-to-trough), occurring approximately every 3.7 years, on average. Once in this correction zone, markets have also entered bear market territory (i.e., over 20% drawdown) over 46% of the time. In other words, historically, nearly half of all corrections have led to bear markets, with the mean decline below -10% levels being approximately -25%.

Between 1930 and 2025, there were 9 instances where the market followed a specific pattern: the S&P 500 first entered the correction zone, hitting a low of -10% or lower, then rebounding and recovering

to a drop of -6% or better from the peak, before falling back below the first decline. The most recent occurrences of this pattern were in August 2015, November 2018, and February 2022.

Proportion of Bear Markets (-20% or more) to corrections outside of a bear market

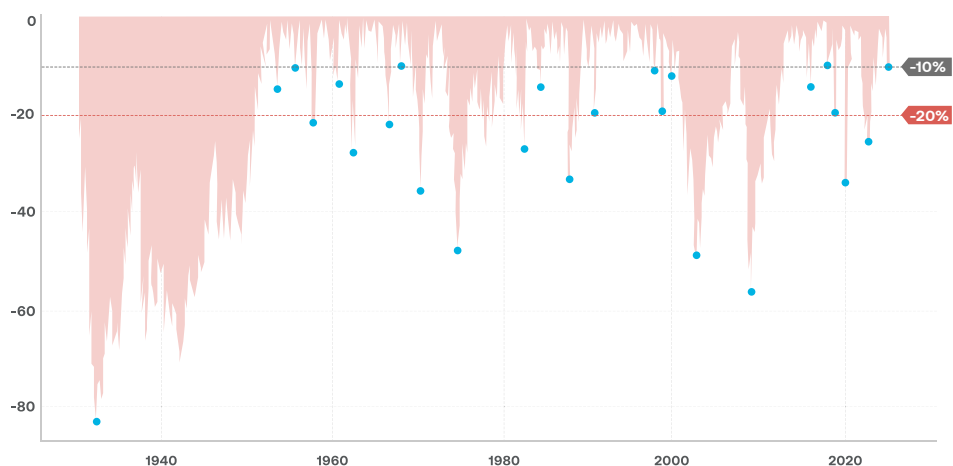


Source: Bloomberg
Data as of March 25, 2025

What if the market rebounds after a correction to its previous peak or even higher? How likely is it that a sharp decline into bear market territory follows soon after? Historically, in one out of every four cases, a bear market has occurred within 18 months of a non-bear-market correction bottoming out and fully recovering to prior levels.

S&P 500 Drawdowns Over Time

- -10% Drawdown Level
- -20% Drawdown Level
- Trough



Source: Bloomberg
Data as of March 25, 2025

These historical tendencies underscore why today's market pullback needs to be closely monitored. Solely based on historical data, it is hard to say the current drawdown has reached its trough or that there will not be a bear market in the short or medium term.

Now, let's look at the market's past behavior under similar conditions as today's. **The 2018 trade war under Trump's first presidency offers a particularly relevant case study. That year, the market entered the correction zone twice:** it hit a low in February of -10.16%, rallied 2% above the previous peak and again dropped -19.78% back in December, out of fears over trade war intensification and higher-than-expected interest rates hikes. Headlines also highlighted concerns regarding overvalued stocks: "Tech stocks are the most overvalued relative to the market since 2009", said CNBC, "trading at an 11 percent valuation premium to the broader market". Companies like Amazon, Apple and Meta lost more than a third of their value during the second half of the year.

If one searches contemporary market commentary at the time, one will find a landscape that resonates with today's misgivings. **Much like today, December 2018's correction was driven by trade policy uncertainty, interest rate fears, and stretched valuations in major tech stocks.** Then, as now, mega-cap tech firms were raising concerns about whether growth expectations were sustainable and lead the downturn. While history doesn't repeat itself exactly, it does give us a pattern of similar events that tend to serve as useful guideposts to understand the present and get prepared for what the future holds.

Additionally, although it could be attributed solely or principally to the effect of rising interest rates, it is also fair to keep in mind how abruptly the S&P 500's profit growth slowed toward the end of 2018 and throughout 2019, following increased tariffs.

According to the Bank of America, for the S&P 500 to

get back near February's levels in the second quarter of 2025 would take a reversal in inflation and trade war concerns, while a recession would drag the index below 5,000. Insigneo's most recent recessionary assessment suggests that we do not consider a recession within the next six months as the base case scenario, although the probability of it occurring is rising. The existing risk of persistent inflation and ongoing trade war tensions cannot be overlooked.

Further highlighting investor caution, the BofA's Survey for March 2025, polling institutional, mutual fund, and hedge fund managers, showed the cash levels as a percentage of managed portfolios increased, but continue below average. Cash holdings below average often signal potential for sell-offs ahead, as there is bandwidth for managers to further execute large sells and de-risk portfolios. Its current level, 4.1% of assets managed, is just outside the contrarian sell territory: 4%.

Overall, there is enough supporting evidence for a lateral or downward market trend view for the remainder of the year to merit concern.

With uncertainty weighing on equities, fixed income markets become particularly relevant. Here, we are already contemplating the awaited widening of the credit spreads. However, looking backwards, there is still space for further widening. **In the context of portfolio management, two effective methods of controlling risk in fixed income are focusing on quality and laddering fixed income portfolios in alignment with client's future cash flow needs.**

Therefore, when the relevant question arises: "how to position portfolios in general considering the potential outcomes ahead?", the answer still lies in a balanced strategy. Balanced portfolios that diversify across asset classes optimize the risk-reward relationship between the returns of portfolios and their volatility. Sure, they do not obtain the maximum re-

turns of the market, but they also minimize the risks of concentration.

In our view, the most balanced and diversified portfolios, adjusted for the client's risk tolerance, tend to obtain optimal returns over the long term. Although opportunities in the market for aggressive investors after a large drawdown in U.S. equities and growth stocks might be on the table, the uncertainty ahead calls for a careful selection of stocks with emphasis on quality and a holistic approach to diversification. Overall, while U.S. equities remain a core portfolio holding, it is sensible for investors to reassess their portfolio allocations now to ensure adequate expo-

sure to diversified global equities, a well-structured fixed income portfolio sleeve and alternatives such as gold and other commodities, to reinforce portfolio resilience in 2025. ■



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